FUELCELL ENERGY INC

FORM 10-Q
(Quarterly Report)

Filed 9/15/1997 For Period Ending 7/31/1997

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Sector	Technology
Fiscal Year	10/31

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

[Mark One]

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 1997

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-14204

ENERGY RESEARCH CORPORATION

(Exact name of registrant as specified in its charter)

New York	06-0853042
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3 Great Pasture Road, Danbury, Connecticut 06813
(Address of principal executive offices) (Zip code)

Registrant's telephone number including area code: (203) 792-1460
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of the Registrant's Common Stock, par value $.0001, as of September 9, 1997 was 3,992,519.

ENERGY RESEARCH CORPORATION
FORM 10-Q

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Part 1 - Financial Information

Item 1. Financial Statements

ENERGY RESEARCH CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(Dollars in thousands, except per share amounts)
(Unaudited)

	July 31, 1997	Oct 31, 1996
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 6,980	$ 7,597
Marketable securities	-	1,956
Accounts receivable	2,233	2,848
Inventories	117	72
Deferred income taxes	209	209
Other current assets	485	231
Total current assets	10,024	12,913
Property, plant and equipment, net	8,247	7,245
Other assets, net	3,097	3,382
Total Assets	$21,368	$23,540
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current Liabilities:		
Current portion of long-term debt	$ 1,743	$ 2,380
Accounts payable	674	1,232
Accrued liabilities	1,076	1,108
Income taxes payable	9	11
Current portion of deferred license fee income	150	95
Total current liabilities	3,652	4,826
Long Term Liabilities:		
Long-term debt	2,921	4,363
Capital lease obligation	-	8
Deferred license fee income	-	17
Deferred income taxes	264	264
Total liabilities	6,837	9,478
Shareholders' Equity:		
Convertible preferred stock, Series C ($.01 par value); 30,000 shares issued and outstanding at July 31, 1997 and October 31, 1996, respectively	600	600
Common Shareholders' Equity:		
Common stock,($.0001 par value); 8,000,000 shares authorized: 3,992,519 and 3,911,787 shares issued and outstanding at July 31, 1997 and October 31, 1996, respectively	-	-
Additional paid-in capital	11,301	11,178
Retained earnings	2,630	2,284
Total common shareholders' equity	13,931	13,462
Total shareholders' equity	14,531	14,062
Total Liabilities and Shareholders' Equity	$21,368	$23,540

See notes to consolidated condensed financial statements.

ENERGY RESEARCH CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Three Months Ended July 31, 1997	1996
Revenues	$ 6,448	$ 7,412
Costs and Expenses:		
Cost of revenues	3,721	5,268
Administrative and selling expenses	1,792	1,070
Depreciation	451	477
Research and development	383	496
	6,347	7,311
Income from operations	101	101
License fee income, net (includes income from related parties of $79 and $79 for the three months ended July 31, 1997 and 1996, respectively)	207	89
Interest expense	(98)	(113)
Interest and other income, net	75	116
Income before provision for income taxes	285	193
Provision for income taxes	90	71
Net income	$ 195	$ 122
Primary and fully diluted income per common share	$ .05	$ .03
Weighted average common and common equivalent shares outstanding	4,203,193	4,146,020

See notes to consolidated condensed financial statements.

ENERGY RESEARCH CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share amounts)
(Unaudited)

	Nine Months Ended July 31, 1997	1996
Revenues	$ 18,203	$ 22,194
Costs and Expenses:		
Cost of revenues	11,521	16,167
Administrative and selling expenses	4,248	3,343
Depreciation	1,416	1,500
Research and development	860	920
	18,045	21,930
Income from operations	158	264
License fee income, net (includes income from related parties of $237 and $237 for the nine months ended July 31, 1997 and 1996, respectively)	441	267
Interest expense	(271)	(389)
Interest and other income, net	234	341
Income before provision for income taxes	562	483
Provision for income taxes	216	176
Net income	$ 346	$ 307
Primary and fully diluted income per common share	$ .08	$ .08
Weighted average common and common equivalent shares outstanding	4,204,893	4,053,282

See notes to consolidated condensed financial statements.

ENERGY RESEARCH CORPORATION
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JULY 31,
(Dollars in thousands)
(Unaudited)

	1997	1996
Cash flows from operating activities:		
Net income	$ 346	$ 307
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,697	1,694
Deferred income taxes	-	(10)
Conversion of accrued interest to principal on long-term debt	29	82
Gain (loss) on disposal of property	-	3
Changes in operating assets and liabilities:		
Accounts receivable	615	790
Inventories	(45)	(601)
Other current assets	(254)	(164)
Accounts payable	(558)	(1,517)
Accrued liabilities	(32)	30
Income taxes payable	(2)	(71)
Deferred license fee income	38	38
Net cash provided by operating activities	1,834	581
Cash flows from investing activities:		

Capital expenditures	(2,415)	(1,152)
Proceeds from sale of marketable securities	1,999	-
Payments on other assets	(42)	(95)
Net cash used in investing activities	(458)	(1,247)
Cash flows from financing activities:		
Repayments of long-term debt	(2,116)	(3,588)
Proceeds from long-term financing	-	4,113
Common stock issued	123	191
Net cash provided by (used in) financing activities	(1,993)	716
Net increase (decrease) in cash and cash equivalents	(617)	50
Cash and cash equivalents, beginning of period	7,597	5,422
Cash and cash equivalents, end of period	$ 6,980	$ 5,472
Supplemental disclosure of cash paid during the period for:		
Interest	$267	$317
Income taxes	$314	$409
Non-cash preferred stock conversion to common stock	$-0-	$600

See notes to consolidated condensed financial statements.

Part I - Financial Information

Item 1. Financial Statements

ENERGY RESEARCH CORPORATION
NOTES TO UNAUDITED CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS

NOTE 1: BASIS OF PRESENTATION

The accompanying consolidated condensed financial statements for Energy Research Corporation ("the Registrant"), have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the financial position of the Company as of July 31, 1997 and the results of operations for the three and nine months ended July 31, 1997 and 1996 and cash flows for such nine month periods have been included.

Information included in the Consolidated Condensed Balance Sheet as of October 31, 1996 has been derived from audited financial statements included in the Company's Annual Report on Form 10-K for the year ended October 31, 1996, but does not include all disclosures required by generally accepted accounting principles.

The results of operations for the nine months ended July 31, 1997 and 1996 are not necessarily indicative of the results to be expected for the full year.

The reader should supplement the information in this document with prior disclosures in the form of previous 10-Q's and the 1996 10-K.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations
Comparison Three Months Ended July 31, 1997 and July 31, 1996

Revenues decreased 13% to $6,448,000 in the 1997 period from $7,412,000 in the 1996 period. The expected decrease in revenues was due primarily to completion of the two-megawatt Direct Fuel Cell power plant project in Santa Clara, California. The decrease was partially offset by a increase in billings under the Company's other contracts.

Cost of revenues decreased 29% to $3,721,000 in the 1997 period from $5,268,000 in the 1996 period. The decrease was due primarily to the decreased revenues mentioned above.

Administrative and selling expense increased 67% to $1,792,000 in the 1997 period from $1,070,000 in the 1996 period. The increase was primarily associated with the recognition of previously deferred recoverable administrative and selling expenses. These costs have been recognized with their associated revenue mentioned above. Depreciation decreased 5% to $451,000 in the 1997 period from $477,000 in the 1996 period. Research and development expenses decreased 23% to $383,000 in the 1997 period from $496,000 in the 1996 period. The decrease was due primarily to a decrease in subcontracted carbonate fuel cell activity which has been partially offset by expanded battery development activities.

Income from operations was unchanged at $101,000 for 1997 and 1996 periods.

License fee income, net increased 133% to $207,000 in the 1997 period from $89,000 in the 1996 period. The increase was primarily due to recognition of the license income under the Company's battery license with Corning, Inc.

Interest expense decreased 13% to $98,000 in the 1997 period from $113,000 in the 1996 period. The decrease was due primarily to the reduction of debt to MTU Friedrichshafen GmbH (MTU) as a result of conversion of $666,000 of principal at $9 per share into common stock of the Company in fiscal 1996 and the repayment of $684,000 of principal during the first quarter of fiscal 1997. The decrease was also due to the Company refinancing its bank debt at more favorable terms during the third quarter of fiscal 1996.

Interest and other income, net decreased 35% to $75,000 in the 1997 period from $116,000 in the 1996 period. The decrease was due primarily to the use of cash for debt repayment during the first quarter of fiscal 1997.

Results of Operations
Comparison Nine Months Ended July 31, 1997 and July 31, 1996

Revenue decreased 18% to $18,203,000 in the 1997 period from $22,194,000 in the 1996 period. The expected decrease in revenues was due primarily to completion of the two-megawatt Direct Fuel Cell power plant project in Santa Clara, California. The decrease was partially offset by an increase in billings under the Company's other contracts.

Cost of revenues decreased 29% to $11,521,000 in the 1997 period from $16,167,000 in the 1996 period. The decrease was due primarily to the decreased revenues mentioned above.

Administrative and selling expenses increased 27% to $4,248,000 in the 1997 period from $3,343,000 in the 1996 period. The 1997 period reflects an increase in various expenses including bid and proposal activity, employment costs, amortization, legal and professional fees. Depreciation decreased 6% to $1,416,000 in the 1997 period from $1,500,000 in the 1996 period. The decrease was due substantially to completion of the amortization of costs associated with the manufacturing facility. Research and development expense decreased 7% to $860,000 in the 1997 period from $920,000 in the 1996 period. The decrease was due primarily to a decrease in subcontracted carbonate fuel cell activity which was partially offset by expanded battery development activity.

Income from operations decreased 40% to $158,000 in the 1997 period from $264,000 in the 1996 period. The decrease was due primarily to the decrease in revenues mentioned above.

License fee income, net increased 65% to $441,000 in the 1997 period from $267,000 in the 1996 period. The increase was primarily due to recognition of the license income under the Company's battery license with Corning, Inc.

Interest expense decreased 30% to $271,000 in the 1997 period from $389,000 in the 1996 period. The decrease was due primarily to the reduction of debt to MTU Friedrichshafen GmbH (MTU) as a result of conversion of $666,000 of principal at $9 per share into common stock of the Company in fiscal 1996 and the repayment of $684,000 of principal during the first quarter of fiscal 1997. The decrease was also due to the Company refinancing its bank debt at more favorable terms during the third quarter of fiscal 1996.

Interest and other income, net decreased 31% to $234,000 in the 1997 period from $341,000 in the 1996 period. The decrease was due to the use of cash for debt repayment during the first quarter of fiscal 1997.

Liquidity and Capital Resources

Working capital at July 31, 1997 was $6,372,000 including $6,980,000 of cash and cash equivalents, compared to working capital of $8,087,000 at October 31, 1996, including $7,597,000 of cash and cash equivalents and $1,956,000 of short term investments.

During the 1997 period, $1,834,000 of cash was provided by operating activities of the Company. During that period, accounts receivable decreased $615,000 other current assets increased $254,000 and accounts payable decreased $558,000. The decrease in accounts receivable is due primarily to the payment of unbilled deferred costs that were incurred earlier in the 1997 period. Accounts payable decreased $558,000 primarily due to the decreased revenues during the period. Net cash from operating activities also included the Company's net income of $346,000.

The Company's capital expenditures are incurred primarily to support ongoing contracts and to replace existing equipment. Capital expenditures for the 1997 period were $2,415,000. A portion of these expenditures were financed from the recovery of depreciation expense under cost-reimbursement contracts and cooperative agreements.

In fiscal year 1990, the Company borrowed $1,980,000 from MTU at a rate of 6% per annum. During fiscal 1996, $877,000 of principal and interest was converted into 97,397 shares of common stock of the Company. The indebtedness, including deferred interest, as of October 31, 1996 was $1,926,000.

During December 1996, the Company repaid to MTU $1,296,000 of principal and interest. MTU extended the maturity of $630,000 of the original loan to November 30, 1997 with the right to convert to common stock at $9 per share including interest. The indebtedness, including deferred interest, as of July 31, 1997 was $658,665. This loan is secured by the pledge of Fuel Cell Manufacturing Corporation (FCMC) stock and certain machinery, equipment and leasehold improvements at the Torrington, Connecticut facility.

In December 1994, the Company entered into a $136,000,000 Cooperative Agreement with the U.S. Department of Energy (DOE) that provided that the DOE would furnish $78,000,000 to the Company over the next five years to support the continued development and improvement of the Company's commercial product. During fiscal 1997, and 1996, an additional $8,000,000 was added to the contract, raising the DOE funding level to $86,000,000. The balance of the funding is expected to be provided by the Company, the Company's partners or licensees, other private agencies and utilities. Approximately 60% of the non-DOE portion has been committed or credited to the project in the form of in-kind or direct cost share from non-U.S. government sources. There can be no assurance that the final 40% of the private sector funding will be available on favorable terms, if at all. Failure of the Company to obtain the required funding could result in a delay or reduction of DOE funding.

The Company will need to raise additional funds to expand the capacity of FCMC. The first stage in this process is to raise the output capability to 50 MW per year. Approximately $16 million has been estimated for this step. There can be no assurance that this funding will be available or if available will result in an output level which will result in a cost competitive fuel cell stack. Meanwhile, the Company is using existing funds to expand production capacity incrementally.

During 1996, the Company (ERC) and the Santa Clara Demonstration Project (SCDP) agreed to certain contract modifications.

ERC\Fuel Cell Engineering Corporation (FCE) agreed that at the option of SCDP, ERC would be responsible for providing up to $300,000 in funding from non-SCDP sources for use for certain corrections, reconfigurations or additional test time for the project. In consideration for the above, SCDP agreed to reduce FCE's liability for unfunded rework from $1,000,000 to $500,000 and to eliminate certain provisions relating to supplying spare stacks for the project. During 1996, FCE provided certain services under this agreement. The balance of this obligation was completed in the second quarter of 1997 as a result of extending the power plant test period beyond that provided for by project funds. This did not impact earnings in the quarter and is not expected to impact earnings in 1997. The Company could experience some costs associated with various options relating to maintaining and/or restoration of the site. It is not expected that these costs will have a material impact on 1997 operations.

The Company anticipates that its existing capital resources together with anticipated revenues will be adequate to satisfy its existing financial requirements and agreements through fiscal 1997.

Part II Other Information

Item 6 - Exhibits and Reports on Form 8

EXHIBIT INDEX

(a) EXHIBIT DESCRIPTION PAGE NO.

EXHIBIT NO.

11	Computation of Earnings (Loss) Per Share for the Three Months Ended July 31, 1997 and July 31, 1996 and for the Nine Months Ended July 31, 1997 and July 31, 1996	13
27	Financial Data Schedule	14

(b) Reports On Form 8-K

NONE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENERGY RESEARCH CORPORATION

/S/Louis P. Barth
Louis P. Barth
Senior Vice President, CFO
Treasurer/Corporate Secretary

Dated: September 12, 1997

ENERGY RESEARCH CORPORATION
COMPUTATION OF INCOME (LOSS) PER COMMON SHARE

	Three Months Ended July 31, 1997	Three Months Ended July 31, 1996	Nine Months Ended July 31, 1997	Nine Months Ended July 31, 1996
PRIMARY				
Shares outstanding, beginning of period	3,961,736	3,792,873	3,911,787	3,728,914
Weighted average number of shares issued, retired and issuable share equivalents	241,736	353,147	293,106	324,368
Weighted average number of common and common equivalent shares outstanding	4,203,193	4,146,020	4,204,893	4,053,282
Net income	$195,000	$ 122,000	$ 346,000	$ 307,000
Net income per common share	$ .05	$ .03	$ .08	$ .08
FULLY DILUTED				
Weighted average number of common and common equivalent sharesoutstanding as adjusted for full dilution	4,273,193	4,342,020	4,274,893	4,249,282
Adjustment for interest, net of tax, on convertible long-term debt	$ 6,000	$ 19,000	$ 18,000	$ 57,000
Adjusted net income	$ 201,000	$ 141,000	$ 364,000	$ 364,000
Net income per common share <F1>	$ .05	$ .03	$ .09	$ .09

<F1> These calculations are submitted in accordance with SEC requirements, although they are not in accordance with APB Opinion No. 15 because they are anti-dilutive.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM ENERGY RESEARCH CORPORATION'S FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JULY 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

PERIOD TYPE	9 MOS
FISCAL YEAR END	OCT 31 1997
PERIOD END	JUL 31 1997
CASH	6,980
SECURITIES	0
RECEIVABLES	2,233
ALLOWANCES	0
INVENTORY	117
CURRENT ASSETS	10,024
PP&E	19,465
DEPRECIATION	11,218
TOTAL ASSETS	21,368
CURRENT LIABILITIES	3,652
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	13,931
OTHER SE	600
TOTAL LIABILITY AND EQUITY	21,368
SALES	18,203
TOTAL REVENUES	18,203
CGS	11,521
TOTAL COSTS	18,045
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	(271)
INCOME PRETAX	562
INCOME TAX	216
INCOME CONTINUING	346
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	346
EPS PRIMARY	.08
EPS DILUTED	.09

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